

MEMORANDUM



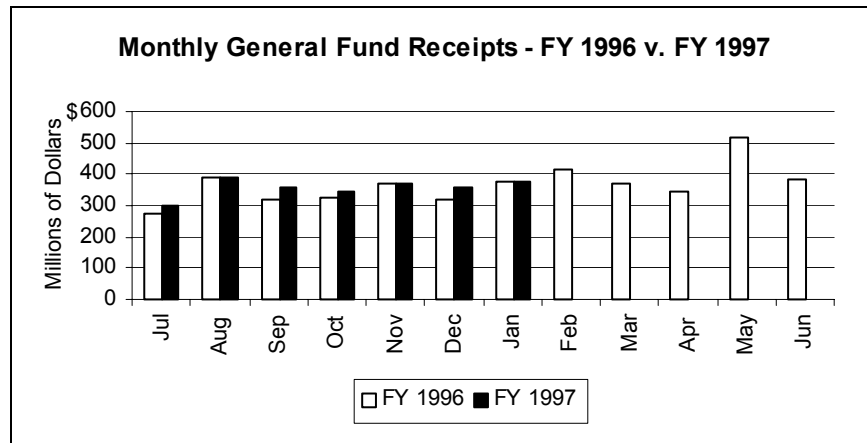
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Dennis C. Prouty

DATE: February 3, 1997

General Fund Receipts Through January 31, 1997

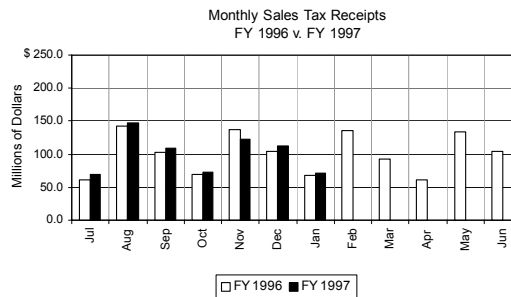
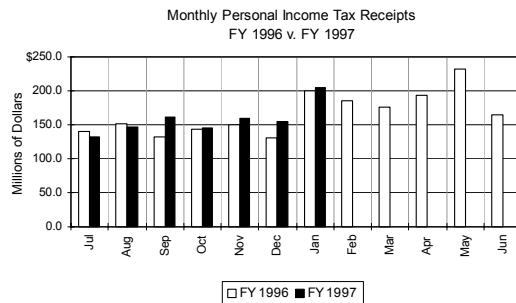
The attached spreadsheet represents total FY 1997 General Fund receipts, with comparable figures for FY 1996. These can be compared to the latest FY 1997 estimate (\$4.627 billion) set by the Revenue Estimating Conference (REC) on November 21, 1996. The estimate represents an increase of \$220.4 million (5.0%) compared to FY 1996. The FY 1998 estimate of \$4.835 billion represents an increase of \$208.0 million (4.5%) compared to the FY 1997 estimate.



Total year-to-date General Fund receipts for the first seven months of FY 1997 increased 5.2% compared to FY 1996. Tax receipts showed an increase of 5.1%. Personal income tax receipts increased 5.6%. Sales tax receipts were 2.7% higher than the previous fiscal year. Use tax receipts increased 8.1% compared to FY 1996, and corporate income tax receipts showed an 8.3% increase. Receipts collected in the month of January were 0.1% more than January 1996. Through January, there have been two more processing days than the same period in FY 1996, although the month of January had the same number of processing days as January 1996.

Gross personal income tax revenues received in January were \$3.6 million (1.8%) greater than January 1996. The low growth is primarily a function of the processing of estimate payments submitted by taxpayers. Over the last two months, personal income tax receipts were 8.7% higher than the same period in FY 1996. Growth in estimate payments for the December-January period exceeded year ago levels by 13.5%. Withholding receipts for the last two months were 7.4% higher than the same period in FY 1996. The REC estimate of

\$2.109 billion represents a projected increase of 5.4% compared to FY 1996. Individual income tax receipts for the remainder of the year need to grow 5.2% (compared to the last five months of FY 1996) to reach the revised estimate.



Sales tax receipts in January increased 5.6% compared to January 1996. The lingering effects of the local option reconciliation payment brought to your attention two months ago is still being reflected in the year-to-date figure, which is almost three percentage points below the monthly growth rate. This payment, paid from the quarterly receipts account, was approximately \$15.0 million higher than last year's payment and is being viewed as a one-time decrease. The year-to-date figure is expected to grow as the effects of the payment are spread throughout the remainder of the year. Sales tax receipts for the remainder of the year will need to grow 8.2% to reach the revised estimate.

Corporate income tax receipts in January were 4.8 million (13.7%) less than January 1996. Year-to-date receipts exceeded FY 1996 levels by \$12.4 million (8.3%). The current REC estimate of \$294.4 million represents an increase of 6.1% compared to actual FY 1996 corporate income tax receipts. To reach the REC estimate, receipts for the remainder of the year will need to grow 3.4% compared to the last five months of FY 1996.

Inheritance tax receipts in January recorded a negative monthly growth rate for only the second time in the last 12 months. Through January, inheritance tax receipts were 10.7% higher than the same period in FY 1996. For the month of January, receipts were 25.2% below the level in January 1996. Compared to the last five months of FY 1996, receipts for the remainder of the fiscal year need to grow by 15.7% to reach the revised estimate. The House Ways and Means Committee and the full Senate have both approved SF 35, which would repeal the inheritance tax imposed on close relatives of deceased persons. The Bill is expected to result in a decrease in revenues from this source of \$19.0 million in FY 1998 and \$45.7 million in FY 1999.

Franchise tax receipts through the first seven months of FY 1997 totaled \$17.6 million, an increase of \$2.2 million (14.2%) compared to actual FY 1996 receipts. The monthly decline of 47.1% was largely due to the processing of quarterly estimate payments. Although, even over the last two months, franchise tax receipts trailed the December-January period last year by 3.8%. Prior to the fourth quarter of FY 1996, there was little evidence that legislation from the 1995 Legislative Session was successful in recovering lost revenues. However, receipts during the last quarter of FY 1996 and the first quarter of FY 1997, as well as an informal analysis of franchise tax returns by the Department of Revenue and Finance, indicate that tax avoidance measures recently utilized by banks may be diminishing substantially. Franchise revenues received in the next five months need to exceed last year's level by 11.7% to reach the REC estimate of \$30.0 million.

Racing and gaming receipts - In compliance with HF 2421 (Transportation and Capitals Appropriations Act), which passed during the 1996 Legislative Session, the Department of Revenue and Finance transferred \$46.1 million from racing and gaming receipts to the Rebuild Iowa Infrastructure Fund. The Infrastructure Fund will also receive all gambling revenues exceeding \$60.0 million in FY 1997. The November REC anticipated total racing and gaming receipts to reach \$113.5 million in FY 1997, which is unchanged from the

September estimate. This level would result in a transfer of \$53.5 million to the Rebuild Iowa Infrastructure Account in FY 1997. The transfer is expected to increase to \$58.1 million in FY 1998.

As an outgrowth of HF 2421, total General Fund receipts growth of \$124.0 million through January includes \$6.9 million from racing and gaming receipts that will not be there at year's end. Thus, adjusted for this factor, total General Fund receipts growth for the first seven months of FY 1997 would be 4.9% rather than 5.2%. Since racing and gaming receipts reached the \$60.0 million mark in February last year, this is the last receipts memo in which the adjustment will be need to be factored.

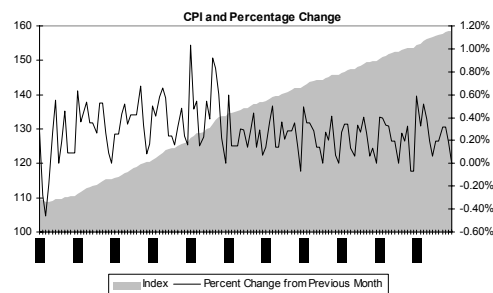
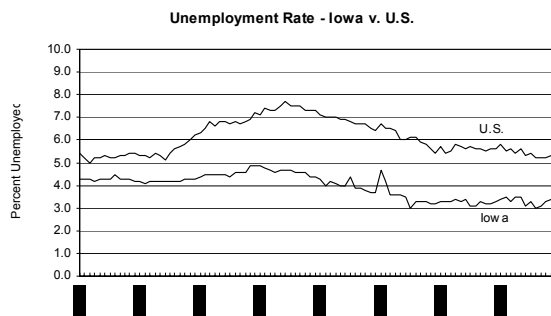
Receipts Compared to REC Estimate

The November REC FY 1997 estimate of \$4.627 billion represents an increase of 5.0% compared to actual FY 1996 General Fund receipts. Assuming each month is expected to increase by the REC estimate, the estimate for the first seven months was exceeded by approximately \$5.3 million (unadjusted for any timing factors). The net impact of all the adjustments discussed in this letter would not change this figure appreciably.

Status of the Economy

The seasonally adjusted percent unemployed for the State increased one-tenth of a point to 3.5% in December. The unemployment rate a year ago was 3.4%. The 1996 annual average unemployment rate was 3.3%, and average employment registered 1,542,800. These represent the best annual employment performance measures since seasonally adjusted records have been kept, dating back to 1978. The U.S. unemployment rate in December remained unchanged from November's rate of 5.3%.

Consumer prices in December held steady at November's price level. The Consumer Price Index (CPI) through December 1996 was 158.6 (1983=100), which is 3.3% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through December 1996.



Receipts Information Available On-Line

Information related to State General Fund receipts continues to be made available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). Data is presented graphically and numerically in quarterly, monthly, and daily formats. If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Jon Muller (515-281-4611).

